

Message Text

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ACTION EUR-12

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TAGS: EFIN, FI

SUBJECT: FINNISH REENTRY INTO US BOND MARKET

REF: (A) HELSINKI 2270, (B) HELSINKI A-117

1. SUMMARY: BEFORE CHRISTMAS FINNISH GOVERNMENT INTENDS TRY TO FLOAT \$50 MILLION ISSUE ON US BOND MARKET. LAST FINNISH GOVERNMENT ISSUE IN US WAS IN 1967. MOODY AND STANDARD AND POOR HAVE GIVEN ISSUE RATING MINISTRY OF FINANCE CONSIDERS SATISFACTORY. MAIN PURPOSE OF ISSUE IS NOT TO RAISE CAPITAL BUT TO IMPROVE ACCESS OF FINNISH PUBLIC AND PRIVATE INTERESTS TO US BOND MARKET. SUCCESSFUL FLOATING OF ISSUE IN US WOULD ALSO HELP FINNISH STANDING ON EURODOLLAR MARKET. END SUMMARY.

2. JOHN R. STEVENSON OF SULLIVAN AND CROMWELL (FORMER STATE DEPARTMENT LEGAL ADVISER) AND ANNIKKI SAARELA OF MINISTRY OF FINANCE HAVE TOLD US FINNISH GOVERNMENT PLANS FLOAT \$50 MILLION BOND ISSUE IN UNITED STATES BEFORE CHRISTMAS. MERRIL LYNCH, SALOMAN BROS., SMITH, BARNEY, AND HARRIS, UPHAM WILL BE PRINCIPAL UNDER-

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WRITERS. DRAFT PROSPECTUS, WHICH STEVENSON HAS

BEEN WORKING ON WITH MINISTRY OF FINANCE, WILL BE FILED WITH SEC SOON. ON ASSUMPTION SEC CONSIDERATION WILL TAKE ABOUT A MONTH OR SO EXPECTATION IS THAT ISSUE WILL BE FLOATED BY CHRISTMAS. FINNISH FINANCIAL OFFICIALS WILL BE TRAVELING TO US BEFORE THEN, INTER ALIS FOR "ROAD SHOW" IN US CITIES TO PROMOTE ISSUE.

3. SIGNIFICANCE OF ISSUE STEMS FROM ABSENCE OF FINNISH GOVERNMENT FROM US BOND MARKET SINCE 1967. ABOUT A YEAR AGO IT WAS DECIDED TO EXPLORE POSSIBILITY OF FLOATING ISSUE IN US. MOODY AND STANDARD AND POOR WERE INVITED IN JUNE TO GIVE PRELIMINARY INDICATION OF RATING OF ISSUE. UPON RECEIPT OF SATISFACTORY PRELIMINARY RATING FROM BOTH FIRMS BASIC DECISION TO GO AHEAD WAS MADE. (MRS. SAARELA DID NOT SPECIFY PRELIMINARY RATING; AA APPEARS TO US LIKELY). INTENTION UNTIL VERY RECENTLY HAD BEEN TO TRY TO FLOAT ISSUE IN 1977 BUT TIMETABLE ADVANCED BECAUSE CURRENT MARKET CONDITIONS DEEMED ADVANTAGEOUS.

4. PROCEEDS OF ISSUE WILL BE DEVOTED TO INVESTMENTS BY FINNISH GOVERNMENT AND GOVERNMENT-OWNED FIRMS. RAISING OF THIS CAPITAL IS, HOWEVER, ONLY A MINOR OBJECTIVE. GOVERNMENT'S MAIN PURPOSE, ACCORDING TO MRS. SAARELA, IS TO IMPROVE ACCESS OF FINNISH PUBLIC AND PRIVATE INTERESTS TO US BOND MARKET. IT WAS FELT THAT THE GOVERNMENT SHOULD FLOAT THE FIRST ISSUE. ALSO IMPORTANT IS EXPECTED EFFECT ON FINNISH STANDING IN EURODOLLAR MARKET.

5. NONE OF PRECEDING INFORMATION HAS YET BEEN MADE PUBLIC HERE.

6. FINLAND'S NET FOREIGN INDEBTEDNESS NOW STANDS AT ABOUT \$6 BILLION, MORE THAN ONE-FIFTH OF GROSS DOMESTIC PRODUCT. CENTRAL GOVERNMENT FOREIGN DEBT ACCOUNTS FOR OVER \$500 MILLION AND 1977 BUDGET PROPOSAL PRESENTED BY FINANCE MINISTRY TO PARLIAMENT ANTICIPATES THAT LIMITED OFFICIAL USE

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CENTRAL GOVERNMENT WILL BORROW ABOUT \$360 MILLION TO BALANCE BUDGET (SEE REPAIR). MOST OF THIS WILL BE BORROWED FROM FOREIGN MCAPITAL MARKETS AND WILL BE HIGHEST ANNUAL FOREIGN BORROWING OF CENTRAL GOVERNMENT. FINLAND PROBABLY WILL CONTINUE TO RUN A BALANCE-OF-PAYMENTS CURRENT ACCOUNT DEFICIT IN THE COMING YEARS, WHICH WILL REQUIRE ADDITIONAL FOREIGN BORROWING BEYOND THAT REQUIRED TO ROLL OVER EXISTING FOREIGN

DEBT. IT IS THIS SITUATION THAT UNDERLIES THE
IMPLICATION IN MRS. SSARELA'S COMMENTS THAT SEVERAL
FINNISH INTERESTS WILL SUBSEQUENTLY APPROACH THE NEW
YORK BOND MARKET IF THE FORTHCOMING BOND ISSUE IS
SUCCESSFUL. REFTEL CONVEYS OUR VIEWS ON OTHER
ASPECTS OF CURRENTLY GLOOMY ECONOMIC SITUATION
FACING FINLAND.
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